Annual Financial Report

For Fiscal Year Ended

June 30, 2011

VIRGINIA STATE UNIVERSITY
SINCE 1882

VIRGINIA STATE UNIVERSITY
ANNUAL FINANCIAL REPORT 2010-2011

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LETTER FROM THE PRESIDENT

Virginia State University (VSU) has continued to be a leader among universities through the 2010-11 academic year. We have adapted to the fiscal challenges experienced by our country with a tightening of expenditures while being innovative and maintaining the high academic standards deserving of our students. We are committed to a culture of learning that is caring and challenging, supportive and rigorous, while embracing the intellectual, moral and social virtues embedded in our history. VSU's new vision and strategic plan suggest that we are a learning community pursuing excellence in every academic way.

VSU's pursuit of excellence includes meeting all accreditation requirements. The Southern Association of Colleges and Schools (SACS), a regional accrediting body of degree-granting higher education institutions in the Southern states, evaluates the University's performance and compliance with specific standards and operational policies. We are fully reaffirmed with no condition. We are also accredited by the Accreditation Board for Engineering and Technology (ABET), the National Association of Schools of Art and Design (NASAD), and the Association of Advance Collegiate Schools of Business (AACSB). Our Professional Education Programs Unit is fully accredited by the National Council for Accreditation of Teacher Education (NCATE), among many others. Various other accreditation or reaccreditation efforts are ongoing. Accreditation is acknowledgement of reaching extremely high standards in academic disciplines. The pursuit of excellence is integrated into our standard operating procedures.

As a public university in the Commonwealth of Virginia, we have a responsibility to not only provide a high quality educational experience for students, but to do so in a fiscally responsible manner. We strive to be excellent stewards of the Commonwealth's resources. In this report, you will read about how Virginia State University is carrying out this responsibility. We are continuously improving our effectiveness and efficiency. VSU is well on its way to being noted as one of the best comprehensive universities in America.

As you peruse this financial report, you will learn once again that the University's financial status is firm. But, we are not resting on our laurels as we continue to be change agents in the Commonwealth of Virginia. Change is becoming a consistent theme. Thank you for your continued interest and support of the new VSU.

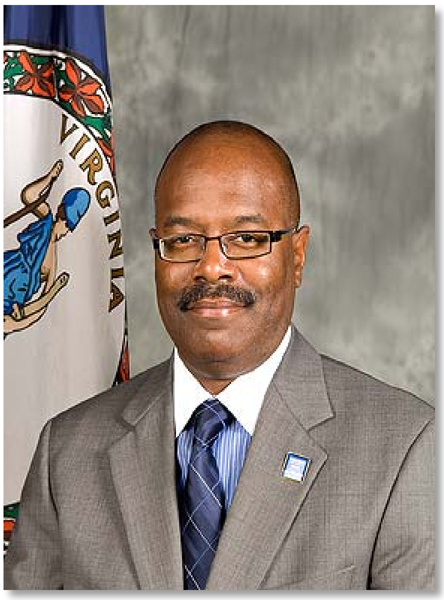
Sincerely,

Keith T. Miller, Ph.D.

Keith T. Miller, Ph.D.
President

VIRGINIA STATE UNIVERSITY
SINCE 1882

MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE



High above the Appomattox River, Virginia State University began the 2011 fiscal year with lofty expectations and commencing the leadership of Dr. Keith T. Miller, the 13th President of VSU. We are excited about his leadership and vision and how it will continue to shape our prestigious institution into one focused on several core strategies and goals central to the success of our university. In support of these goals, the Administration and Finance organization stands strong to deliver great performance for Virginia State University.

The fiscal year 2010 through 2011 brought forth some glimmers of economic recovery throughout the country and particularly within the Mid Atlantic region. Although our dollar value of funding from the Commonwealth remains significantly lower than in the past, mainly due to a series of budget cuts taken several years ago; the Commonwealth of Virginia did not levy a reduction against our General Fund appropriations in FY2011. This allowed the University to have greater flexibility in planning, and availability of resources during the fiscal year. We are confident that prudent financial management has allowed VSU to successfully weather the worst part of the economic storm.

During the FY 2010-2011 fiscal year, Virginia State University made some tremendous strides towards fulfilling its overall strategic plans, particularly in the achievement of operational and administrative goals in support of these plans. In the spring of 2011, the University brought together a cross-section of academic, administrative and student groups to begin the formation of the Strategic Planning Task Force. The goal was to create a new Strategic Plan that brings together the vision of President Miller and the Vice President's Council. This task force has worked diligently on the new strategic plan, and we will see great strides from their commitment and continued efforts in the upcoming 2012 fiscal year. This plan will unfold in several phases. Phase I began with a consensus being reached around the eight overarching Council Priorities that we believe are central to the success of our university. We aligned these eight VP Council Priorities to the universities 6 Year Plan submitted to the Governor and Secretary of Education. Some of the priorities outlined in this plan are Strategic Enrollment Growth, Academic Program Quality and Development, Internationalization and Global Programs, and Technology Integration. As we move closer to the conclusion of Phase I, which was solely dedicated to outlining the strategies and objectives of the plan, we are very eager and motivated about Phase II. In Phase II, we will commence with the tactical and operational portion of the plan. I am excited about the projected outcome this plan will bring to the future outlook and mission of the University.

In the area of Finance, Virginia State University continues to have high standards of financial management and accountability in reporting, as a result of the continued dedicated efforts of the administration and finance staff. For the 18th consecutive year, the University received an unqualified opinion on its financial statements from the Auditor of Public Accounts. We also exceeded the Governor's mandate under Executive Order #33 SWAM goals, generated eVA cost savings in excess of $400K and increased 1Card merchants by 25%. We took great steps in Risk Management by achieving the first ever Risk Management Certification from the Commonwealth. Even with a marginal uptick in the national commercial construction segment, VSU continues to achieve excellent results in our Capital Outlay and Facility Management sector in concert with the Master Plan. We completed the construction of the Quad I Residence Hall, and the Dining and Event Center. Major renovations of Singleton Hall, the Heating Plant, Agricultural Engineering Building, and the start of the renovation to Hunter McDaniel took place as well in FY2011. We also finished the final phase of our campus wide building Utility Metering project.

Within our Information Technology sector, the University completed several key infrastructure projects to include an upgrade to Banner 8, and moved to a more robust Oracle platform. We also implemented new database upgrades to facilitate digital academic programs, and completed the implementation of the Kronos Time Management System.

In the Academic Arena – In FY2011, the Reginald F. Lewis School of Business became the first in the country to launch an integrated core curriculum which is predominantly delivered in a digital format. This new digital delivery is part of a broad initiative to deliver an integrated core business curriculum to students in a digital format that's cost-effective, environmentally sustainable, and attuned to the demands of an increasingly mobile generation. Within the School of Liberal Arts and Education, we created the Center for Life-Long learning and the Center for Innovative Teaching, which will enhance the preparation of teacher candidates, university faculty and the surrounding community. We continued our global outreach with faculty in the Doctoral Studies department traveling to Africa for a collaborative venture with the University in Illorin, Nigeria.

We are proud of our accomplishments and will continue to make great progress in providing quality instructional programs and superior service to our constituents, but more importantly Virginia State University is very enthusiastic about its current and future opportunities. Enrollment growth is robust, there is a renewed commitment to customer service, we are taking a greater role in shaping the landscape of our geographic region, and a long range strategic plan is being developed. It is indeed a wonderful time to be a Trojan.

Very truly yours,

David J. Meadows

David J. Meadows
Vice President for Administration and Finance
Chief Financial Officer

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 19, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia State University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **Virginia State University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors. The prior year comparative information has been derived from the University's 2010 financial statements, and in our report dated June 30, 2011, we expressed an unqualified opinion on the respective financial statements of the University.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 9 through 20 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2012 on our consideration of the Virginia State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

JBS/clj

MANAGEMENT'S RESPONSIBILITY FOR REPORTING AND INTERNAL CONTROLS

The information in this Annual Financial Report, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia State University executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the University. Management believes the information is accurate in all material respects and fairly presents the University's revenues, expenses, and changes in net assets as well as its overall financial position. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2011.

The administration is responsible for establishing and maintaining the university's system of internal controls. Key elements of the university's system of internal controls include: careful selection and training of administrative personnel; organizational structure that provides appropriate division of duties; thorough and continuous monitoring, control, and reporting of operating budgets versus actual operating results; well communicated written policies and procedures; annual self-assessments led by the Controller's Office; and an internal audit function. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes that the University's system provides reasonable, but not absolute, assurances that assets are safeguarded from unauthorized use or disposition, and accounting records are sufficiently reliable to permit preparation of financial statements and appropriate accountability for assets and liabilities.

The Finance, Audit and Facilities Committee of the Virginia State University Board of Visitors reviews the University's accounting practices. The Board meets with external independent auditors annually to review the Annual Financial Report and results of audit examinations. The committee also meets with internal auditors and University financial officers quarterly. These meetings include a review of the scope, quality, and results of the internal audit program.

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and their report thereon appears on the facing page. Their examination includes a study and evaluation of the University's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues they consider worthy of management's attention. The University has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2011.

VIRGINIA STATE UNIVERSITY HIGHLIGHTS FOR FISCAL YEAR 2011

1. Dr. Keith T. Miller officially became Virginia State University's 13th President effective July 1, 2010.

2. Jesse Vaughn, award winning Executive Producer of the VSU Today TV show and Director of the "Building A Better World" commercials, facilitated the production of a segment about the Doctoral Program in the Professional Education Programs Unit, which aired in the fall of 2011.

3. Virginia State University received an unqualified audit opinion from the Commonwealth of Virginia's Auditor of Pubic Accounts for the fiscal year ended June 30, 2011. This marks the 18th consecutive unqualified audit for VSU.

4. The University exceeded the Governor's mandate under Executive Order #33 to spend at least 40 percent of the University's discretionary funds with Small, Women-and Minority-Owned (SWaM) businesses. During FY2011, the University hired a Diversity Champion and initiated development of a comprehensive diversity plan.

5. Virginia State University's Agricultural Research Station was awarded two grants totaling approximately half a million dollars by the Virginia Tobacco Commission to research potentially-profitable alternative crops for former tobacco and other small farmers in Southside Virginia.

6. VSU was the recipient of the "Legacy Award" from the Hispanic College Fund. This award was given to VSU for our positive effect on Hispanic youth by hosting the Hispanic Youth Symposium this past summer.

7. The Renovation of the Reginald F. Lewis School of Business and the Agricultural Engineering Building was completed. Also, Phase I renovation of the Hunter McDaniel building began. A cumulative value of approximately $33M in construction and equipment upgrades to academic spaces has been completed and/or is in progress.

8. Virginia State University completed the construction of a new 113,000 square feet Quad I Residence Hall that added 458 new student beds. The new residence hall was occupied in August, 2010. Design and construction began in May, 2011 for the new Gateway II Residence Hall.

9. Reconstruction and completion of the Gateway Dining and Event Center took place in FY2011. It was opened for operation on 4/1/2011. This project also included an additional 169 parking spaces for the Event Center and Quad I Residence Hall.

10. The University increased the usage of mobile and computing technologies on campus through the deployment of the wireless fidelity network (WiFi) in Gateway Dining Events Center, Johnston Memorial Library, and the Reginald F. Lewis School of Business.

11. The University completed the Banner 8 Migration project on schedule.

12. The University installed Microsoft Dynamics ERP Software for the Accounting curriculum, Academic Grant and Research Information System (ArGIS), ERDAS Geospatial Business system, Wolfram Mathematica, SPSS Statistical Analysis software, and Oracle in academic labs and classrooms in order to support the student learning environment.

13. Virginia State University successfully completed implementation of the Kronos Time Management System.

14. The Private Switch/Automatic Location Identification (PS/ALI) was implemented. This is a phone number locator data for E-911 services, which ensures compliance with FCC regulations.

15. The University met Financial and Administrative Standards, as identified in the Appropriations Act.

16. The University continued to expand its footprint with the purchase of 64 properties and the demolition of 30 dwellings.

17. The University did major renovation to its Student Accounting Customer Service area to provide students with more privacy while transacting business and discussing accounts.

18. An ARMICS (Agency Risk Management and Internal Control Standards) Student Internship Program was established to provide real-world work experience and application of accounting education under the supervision of an on-site administrator and an accounting faculty member.

19. Several Faculty members in the Department of Doctoral Studies within the School of Liberal Arts and Education traveled to Nigeria to plan for collaboration between Virginia State University and the University in Ilorin, Nigeria.

20. The Professional Education Programs Unit acquired funds from the State Farm Corporation to support National Board Certification in the region. The Petersburg School District achieved their 1st National Board Certified Teacher as a result of the program.

21. The VSU Marching Band **"The Trojan Explosion"** won the battle of the bands competition at Madison Square Garden in New York City during the Big Apple Classic for the second straight year.

MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)

INTRODUCTION

Virginia State University is an agency of the Commonwealth of Virginia and is governed by a fifteen member Board of Visitors. The Commonwealth has the authority to exercise oversight over the University. The University has two major divisions, the Academic Colleges and the Cooperative Extension and Agricultural Research Services. The University is a component unit of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

The University is one of two land grant institutions in the Commonwealth. As a land grant institution, the University engages in natural resource related research projects and agriculture extension services. The University, founded in 1882, was designated a land grant institution in 1920, and attained University status in 1979. The University offers programs at the undergraduate level in science, mathematics, education, humanities, social sciences, engineering, technology, business, and certain professional areas. The University offers programs at the graduate level in science, mathematics, education, humanities, and social sciences. The University offers programs at the doctoral level in educational administration and supervision, and health psychology.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an overview of the financial position and results of activities of Virginia State University (the University) for the fiscal year ended June 30, 2011. This overview has been prepared by management and should be read in conjunction with the financial statements and footnotes that follow this section. Comparative information for the fiscal year ended June 30, 2010, as restated has been provided where applicable. The financial statements were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB).

The University's financial report includes three financial statements and related notes:

1. The Statement of Net Assets (SNA)
2. The Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA)
3. The Statement of Cash Flows (SCF)

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external reporting for colleges and universities. These principles require that the financial statements be prepared with resources classified for accounting and reporting purposes into four net asset categories: Current Assets, Noncurrent Assets, Current Liabilities and Noncurrent Liabilities. Please note that although the University's foundations identified under GASB Statement 39, Determining Whether Certain Organizations are Component Units, are reported in the component unit financial statements, this Management Discussion and Analysis excludes reference to the foundations except where specifically noted.

The University's financial position remained strong at the close of FY2011. There was an overall increase in net assets of $25.9 million. Although the net operating loss increased by $12.3 million, it was more than offset by an increase in nonoperating revenues of $6.3 million and an increase in other revenues of $22.4 million. The increase in the net operating loss was mostly due to an increase of $3.7 million in personal services expenses and an increase of $9.1 million in supplies and services. The increase in nonoperating revenues was primarily the result of an increase of $2.5 million in federal stabilization funds associated with the American Recovery and Reinvestment Act (ARRA). There was also an increase in investment earnings of $2.1 million. The majority of increase in other revenues was due to an increase of $17.6 million in the 21st century bonds reimbursement program.

Summary of the Change in Net Assets

	Year Ended June 30,		Increase/(Decrease)	
	2011	2010**	Amount	Percent
Operating revenues	$ 66,689,101	$ 64,824,191	$ 1,864,910	2.9%
Operating expenses	128,175,078	114,009,005	14,166,073	12.4%
Operating loss	(61,485,977)	(49,184,814)	(12,301,163)	(25.0%)
Nonoperating revenues	58,240,597	51,979,804	6,260,793	12.0%
Other revenues	29,170,715	6,721,453	22,449,262	334.0%
Total	$ 25,925,335	$ 9,516,443	$ 16,408,892	172.4%

**As restated

On a summary basis, operating revenues increased by $1.9 million or 2.9% in FY2011 over the previous fiscal year. Operating expenses also increased by $14.2 million or 12.4%. This resulted in an increase of the University's operating loss from $49.2 million in FY2010 to $61.5 million in FY2011, an increased loss of $12.3 million.

The operating loss was offset by $87.4 million in non operating revenues and other revenues primarily composed of state appropriations, reimbursements from the state 21st century bond reimbursement program and federal student financial aid. This increase was partially offset by the Student Village write-off.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between the total assets and total liabilities - net assets - is one indicator of the current financial condition of the University, while the change in net assets is an indication of whether the overall financial condition of the University has improved or worsened during the year. Assets and liabilities are generally measured using current values. Two notable exceptions are capital assets, which are stated at historical cost less an allowance for depreciation and endowment investments which are reported at current market value.

Comparing the FY2011 SNA to the previous fiscal year, total assets increased by $18.4 million or 8.2%.

Currents assets decreased by $3.0 million during FY2011. Current assets are comprised of cash and cash equivalents, short term investments, notes and loans receivable, due from the commonwealth, and securities lending.

Noncurrent assets increased by $21.4 million during FY2011. Noncurrent assets are comprised of restricted cash and cash equivalents, state appropriations available, investments, and capital assets net of depreciation. There was a decrease in restricted cash and cash equivalents of $14.1 million which was primarily due to cash outlays for the construction of Howard Quad Residence Hall and the Hunter McDaniel building. This decrease was offset by an increase in capital assets of $30.8 million which was primarily due to an increase in purchases of land of $6.8 million for campus expansion in accordance with the Master Plan and a net increase in buildings of $43 million. These were offset by a net decrease of $17.7 million in construction in progress. There was also an increase in investments of $4.8 million due to new gifts and an improvement in the stock market.

Compared to the previous fiscal year, total liabilities declined by $7.6 million or 8.4%. Total liabilities are comprised of current and noncurrent liabilities.

Current liabilities decreased by $4.7 million during FY2011. Current liabilities are comprised of accounts payable and other accrued liabilities, deferred revenues, obligations under securities lending, deposits held in custody, the current portion of long-term liabilities, and retainage payable. This overall decrease was primarily due to a decrease in the state securities lending program of $7.0 million. This was offset by an increase of $2.2 million in accounts payable and accrued liabilities.

Noncurrent liabilities decreased by $2.8 million during FY2011. Noncurrent liabilities are comprised primarily of the noncurrent portion of long-term debt (bonds and notes payable). This was due to the retirement on long-term debt. During FY2011 VSU did not incur any additional long-term debt.

A summary of the University's assets, liabilities, and net assets at June 30, 2011 and 2010 follows:

Summary of the Statement of Net Assets

	Year Ended June 30,		Increase/(Decrease)	
	2011	2010**	Amount	Percent
Assets:				
Current Assets:	$ 42,436,281	$ 45,443,906	$ (3,007,625)	(6.6%)
Noncurrent assets:				
Restricted cash and cash equivalents	(85,497)	13,973,453	(14,058,950)	(100.6%)
State appropriations available	176,428	258,723	(82,295)	(31.8%)
Investments	22,934,524	18,171,385	4,763,139	26.2%
Capitals assets, net	175,146,197	144,306,382	30,839,815	21.4%
Other	1,899,877	2,002,643	(102,766)	(5.1%)
Total noncurrent assets	200,071,529	178,712,586	21,358,943	12.0%
Total assets	242,507,810	224,156,492	18,351,318	8.2%
Liabilities:				
Current liabilities	22,834,577	27,580,094	(4,745,517)	(17.2%)
Noncurrent liabilities	59,837,189	62,665,689	(2,828,500)	(4.5%)
Total liabilities	82,671,766	90,245,783	(7,574,017)	(8.4%)
Net assets:				
Invested in capital assets, net of related debt	114,362,825	89,119,169	25,243,656	28.3%
Restricted:				
Nonexpendable	7,284,313	6,372,401	911,912	14.3%
Expendable	18,729,693	14,465,547	4,264,146	29.5%
Unrestricted	19,459,213	23,953,592	(4,494,379)	(18.8%)
Total net assets	$ 159,836,044	$ 133,910,709	$ 25,925,335	19.4%

** As restated

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of activities for the fiscal year. Presented below is a summarized statement of the University's Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2011 and 2010.

Summary of the Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		Increase/(Decrease)	
	2011	2010**	Amount	Percent
Operating revenues	$ 66,689,101	$ 64,824,191	$ 1,864,910	2.9%
Operating expenses	128,175,078	114,009,005	14,166,073	12.4%
Operating loss	(61,485,977)	(49,184,814)	(12,301,163)	(25.0%)
Nonoperating revenues/(expenses)				
State appropriations	38,378,276	37,977,396	400,880	1.1%
Federal student financial aid	15,827,932	13,249,393	2,578,539	19.5%
Other nonoperating revenues/(expenses)	4,034,389	753,015	3,281,374	435.8%
Net nonoperating revenues and expenses	58,240,597	51,979,804	6,260,793	12.0%
Income/(loss) before other revenues and reductions	(3,245,380)	2,794,990	(6,040,370)	(216.1%)
Capital grants and gifts	1,018,308	631,745	386,563	61.2%
Additions/(reductions) to permanent endowments	515,292	1,323,591	(808,299)	(61.1%)
Other capital revenues	27,637,115	4,766,117	22,870,998	479.9%
Total other revenues	29,170,715	6,721,453	22,449,262	334.0%
Total increase in net assets	25,925,335	9,516,443	16,408,892	172.4%

**As restated

Operating revenues for the University increased by $1.9 million or 2.9% from the previous fiscal year. Operating expenses increased by $14.2 million or 12.4%. The operating loss for the University increased by $12.3 million in FY2011. The operating loss was offset by non operating revenues of $58.2 million and other capital revenues of $27.6 million. There was a significant increase in non operating revenues for Federal Student Financial Aid (Pell Grants) of $2.6 million or 19.5%. There was an increase of $2.5 million in federal stabilization funds associated with the American Recovery and Reinvestment Act (ARRA). Also, investments increased by $2.1 million in FY2011. This all resulted in a loss before other revenues of $3.2 million in FY2011, a decrease in net income of $6.0 million from the previous year.

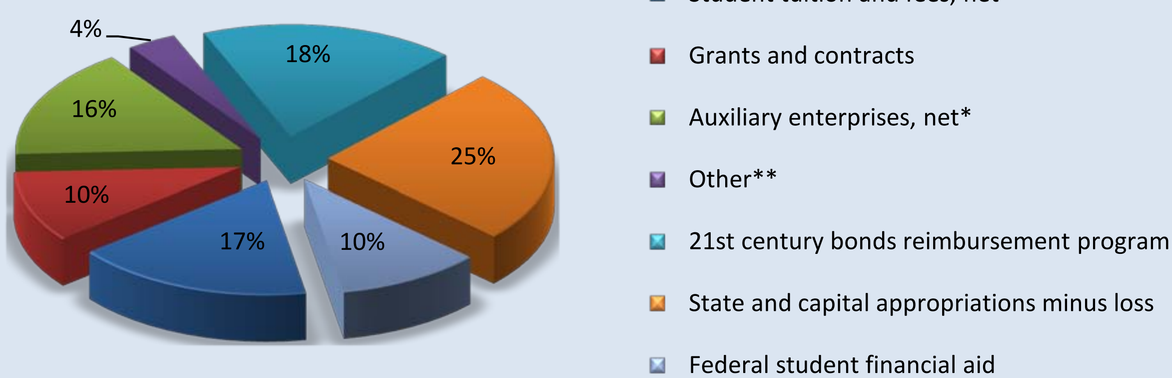
There was a significant increase in other revenues of $22.9 million or 479.9% primarily due to increased revenue from the 21st Century Bonds Reimbursement Program.

In summary, there was an increase in net assets of $25.9 million in FY2011 compared to an increase in net assets in the previous fiscal year that totaled $9.5 million.

A summary of the University's revenues for the years ended June 30, 2011 and 2010 follows:

SUMMARY OF REVENUES

For the year ended June 30, 2011



Summary of Revenues
Increase (Decrease) in Revenues
For the years ended June 30, 2011 and 2010

	2011	2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Student tuition and fees, net*	$ 26,275,461	$ 23,521,687	$ 2,753,774	11.7%
Grants and contracts	15,470,690	18,054,272	(2,583,582)	(14.3%)
Auxiliary enterprises, net*	24,456,246	22,459,802	1,996,444	8.9%
Other operating revenue**	486,704	788,430	(301,726)	(38.3%)
Total operating revenues	66,689,101	64,824,191	1,864,910	2.9%
Non operating revenues/(expenses):				
State appropriations	38,378,276	37,977,396	400,880	1.1%
Federal student financial aid	15,827,932	13,249,393	2,578,539	19.5%
Other non operating revenues, net**	4,034,389	753,015	3,281,374	435.8%
Total non operating revenues	58,240,597	51,979,804	6,260,793	12.0%
Capital revenues and gains:				
Capital grants and gifts	1,018,308	631,745	386,563	61.2%
Additions to permanent endowment	515,292	1,323,591	(808,299)	(61.1%)
Other capital revenues**	27,637,115	4,766,117	22,870,998	479.9%
Total other revenues	29,170,715	6,721,453	22,449,262	334.0%
Total revenues	$ 154,100,413	$ 123,525,448	$ 30,574,965	24.8%

*Net of scholarship allowance
**Other includes: Sales and services, other operating revenues, gifts, investment income, interest on indebtedness, loss on disposal of assets, federal stabilization funds (ARRA), other nonoperating revenues and expenses, 21st century bonds, general obligation bonds, extraordinary loss.

As noted earlier, overall total operating revenues increased in FY2011 to $66.7 million from $64.8 million in the previous year. As reflected in the chart above, two of the largest items of the increase in operating revenues were from student tuition and fees and auxiliary enterprises revenues, net of scholarship allowance. These two increases were driven by an increase in student fees and an increase in enrollment. These increases were offset by a decrease in revenue from grants and contracts.

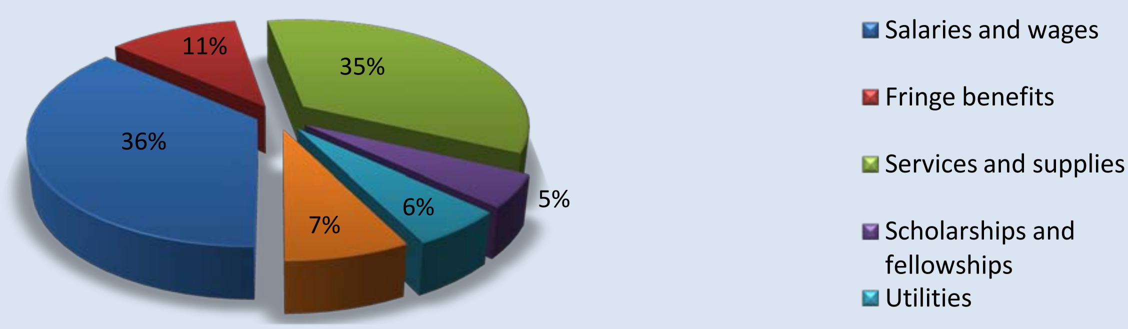
As noted earlier, nonoperating revenues increased overall by $6.3 million. The explanation is provided on the previous page.

SUMMARY OF EXPENSES

A summary of the University's operating expenses for the years ended June 30, 2011 and 2010 appears below. Overall, total operating expenses increased by $14.2 million in FY2011 compared to the previous fiscal year. This represents a 12.4% increase.

SUMMARY OF EXPENSES BY NATURAL CLASSIFICATION

For the year ended June 30, 2011



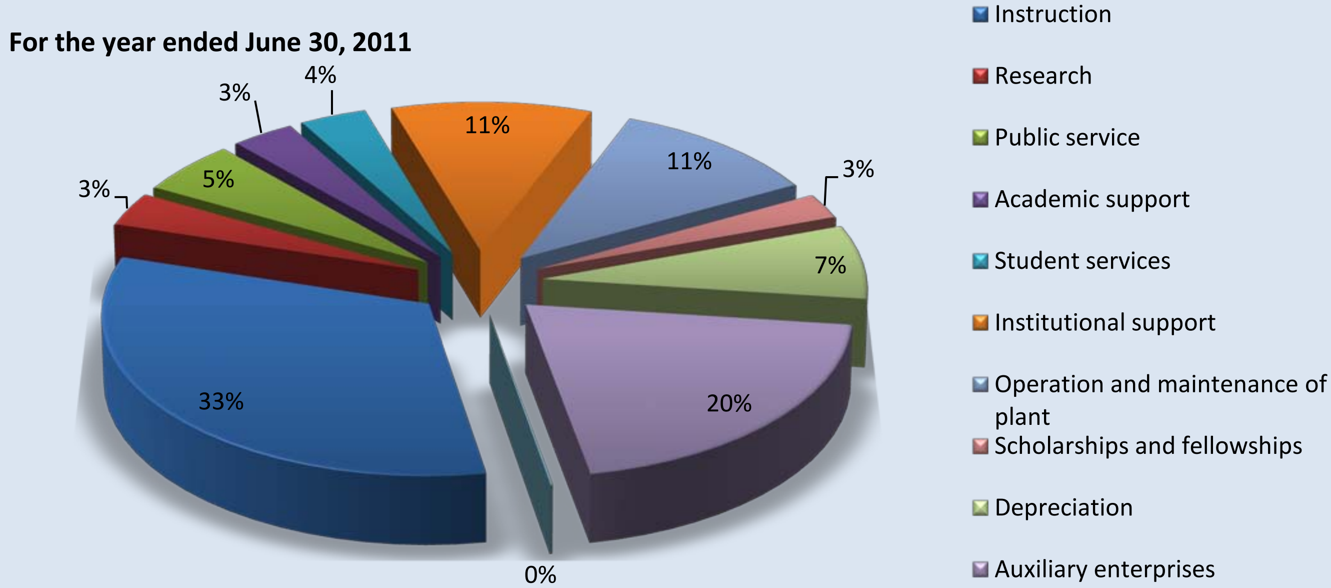
Increase in Operating Expenses by Natural Classification
For the years ended June 30, 2011 and 2010

	2011	2010**	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Salaries and wages	$ 46,782,644	$ 44,144,568	$ 2,638,076	6.0%
Fringe benefits	13,892,973	12,793,824	1,099,149	8.6%
Services and supplies	44,575,378	35,496,220	9,079,158	25.6%
Scholarships and fellowshir	6,185,497	4,921,165	1,264,332	25.7%
Utilities	7,174,925	7,339,244	(164,319)	(2.2%)
Depreciation	9,563,661	9,313,984	249,677	2.7%
Total operating expenses	$ 128,175,078	$ 114,009,005	$ 14,166,073	12.4%

**As restated

The overall increase in operating expenses of $14.2 million was due to increases in services and supplies of $9.1 million, personal services of $3.7 million, and scholarships and fellowships of $1.3 million.

SUMMARY OF EXPENSES BY FUNCTION



For the years ended June 30, 2011 and 2010

	2011	2010**	Increase/(Decrease) Amount	Percent
Operating expenses:				
Instruction	$ 41,673,127	$ 34,703,815	$ 6,969,312	20.1%
Research	4,338,349	4,302,792	35,557	0.8%
Public service	6,845,224	7,658,294	(813,070)	(10.6%)
Academic support	4,275,020	4,995,689	(720,669)	(14.4%)
Student services	4,518,710	5,252,008	(733,298)	(14.0%)
Institutional support	13,537,160	14,206,549	(669,389)	(4.7%)
Operation/maintenanc of plant	14,285,346	9,850,093	4,435,253	45.0%
Scholarships and fellowships	3,201,814	2,026,857	1,174,957	58.0%
Depreciation	9,563,661	9,313,984	249,677	2.7%
Auxiliary enterprises	25,779,273	21,698,924	4,080,349	18.8%
Other	157,394	-	157,394	100.0%
Total operating expenses	$ 128,175,078	$ 114,009,005	$14,166,073	12.4%

**As restated

The increase in instruction of $7.0 million was the result of increases in personal services of $2.3 million and services and supplies of $4.7 million. The increase in operations and maintenance of plant of $4.4 million was primarily the result of an increase in services and supplies of $4.2 million. The largest factor in the increase in auxiliary enterprises of $4.1 million is an increase in services and supplies of $3.2 million. There was also an increase in expenses for scholarships and fellowships of $1.2 million. These increases were offset by decreases in public services of $813 thousand, in student services of $733 thousand, and academic support of $721 thousand. The primary factor in these decreases was a reduction in expenses for services and supplies.

STATEMENT OF CASH FLOWS

The SCF provides additional information about the University's financial results by reporting the major sources and uses of cash. GASB principles define four major categories of cash flows: cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

This statement provides a slightly different perspective from the Statement of Revenues, Expenses, and Changes in Net Assets. On the latter statement, state appropriations and gifts are considered nonoperating revenue. However, on the SCF, these revenues are reflected under noncapital financing activities, while investment income is shown under investing activities. These cash flows are crucial to funding the operation of the University.

Statement of Cash Flows

	Year Ended June 30,		Increase/(Decrease)	
	2011	2010**	Amount	Percent
Cash flows from:				
Operating activities	$ (50,556,760)	$ (40,363,609)	$ (10,193,151)	(25.3%)
Noncapital financing activities	57,854,906	53,823,706	4,031,200	7.5%
Capital and related financing activities	(23,861,518)	(30,796,887)	6,935,369	22.5%
Investing activities	(1,222,556)	(2,196,862)	974,306	44.3%
Net increase/(decrease) in cash and cash equivalents	(17,785,928)	(19,533,652)	1,747,724	8.9%
Cash and cash equivalents, beginning of year	40,513,357	60,047,009	(19,533,652)	(32.5%)
Cash and cash equivalents, end of year	$ 22,727,429	$ 40,513,357	$ (17,785,928)	(43.9%)

**As restated and reclassified.

Overall, there was approximately $10.2 million increase in net cash used by operating activities in FY2011 compared to FY2010. The increases in cash were used for payments to suppliers of $8.7 million, payments to employees of $4.0 million, and a reduction of cash received from grants and contracts of $2.1 million. These decreases in cash were partially offset by additional revenues from tuition and fees of $2.1 million and an associated increase in revenues from auxiliary enterprises of $2.2 million.

There was an increase of $4.0 million in cash flows from noncapital financing activities. There were increases in cash received from federal student financial aid of $2.6 million and ARRA fiscal stabilization of $2.5 million. This was offset by a reduction in cash flows for gifts of $1.2 million.

There was a net decrease in cash used for capital financing activities of $6.9 million in FY2011. The primary factor was an increase in cash received for 21st century bonds of $11.5 million. This was offset by an increase in cash used for the purchase of capital assets of $4.9 million.

The last major category on the statement of cash flow is cash flows from investing activities. Overall, net cash from investing activities decreased by $974 thousand. There was an increase in investment income from the prior year of $2.1 million. There was also a decrease in cash used for the purchase of investments of $788 thousand. This was offset by a decrease in proceeds from the sale and maturities of investments of $2.0 million.

In summary, there was an overall $17.8 million reduction in cash between FY2010 and FY2011.

CAPITAL AND DEBT ACTIVITIES

The renewal and replacement of the University's capital assets is crucial to sustaining the quality of its academic, research and public service programs. The University continues to invest in capital assets in accordance with its master plan, modernizing its current and older facilities, purchasing new equipment and building new facilities. Capital assets, net of depreciation, increased by $30.8 million in FY2011.

During FY2011, the University opened Howard Quad Residence Hall and Gateway Dining Hall. The University substantially completed renovations to the Reginald F. Lewis School of Business and undertook major renovations to the Hunter McDaniel academic building. In addition, the University demolished the Student Village housing complex in preparation for the construction of a new housing building, Gateway II Residence Hall. The University also continued to purchase land for future expansion of the campus in accordance with the University's Master Plan.

Proper management of University resources and the replacement and renewal of capital assets requires the prudent use of debt to finance projects. University bonds are issued pursuant to Section 9(c) of Article X of the Constitution of Virginia. These bonds are backed by the full faith, credit and taxing power of the Commonwealth. The use of debt to finance capital projects is handled in accordance with the University's Debt Policy.

As of June 30, 2011, the University had $47.0 million in outstanding general obligation bonds. In addition, the University had a total of $9.4 million in outstanding notes payable. Lastly, the University has an installment purchase agreement in the amount of $2.5 million related to energy performance upgrades and vehicles purchased through the Commonwealth's Master Equipment Leasing Program (MELP).

FUTURE ECONOMIC OUTLOOK

University executive management is confident that the University is positioning itself for competing in the future. However, as noted by the Governor in remarks made regarding the upcoming 2012-2014 biennium budget cycle, he expects funding to be tight and has asked agency leadership to prepare suggestions for general fund appropriation cuts of 2, 4, and 6%. The Governor has also requested Agency heads to take a broader review of agency programs and services and to consider programs cuts and eliminations, if appropriate. As the Administration has begun to review the next biennium budget requests, the Governor's Office noted "it has become increasingly apparent that the many critical needs of our state will have to be met with what may be increasingly limited resources". All of this is taking place as the United States and world economy is on the brink of perhaps another recession. Even if there is not another recession, the recovery so far has been different than other recessions and there continues to be high unemployment and other economic woes. These comments were echoed in further remarks made by Secretary of Finance Ric Brown regarding the Commonwealth's finances.

The impact of this on the University will be probable continued reductions in State appropriations, losses of endowment gains and income, continuing difficulty in fund raising for restricted and unrestricted needs and the necessity to raise tuition and fees. This will make it harder for students to afford higher education and could have an impact on the University's plans to grow enrollment. Although the University has recorded increases in enrollment over the last few years, it must remain competitive in order to attract top students.

The University is working to increase grant and contract revenues and has embarked on an ambitious capital improvements plan to modernize auxiliary enterprise buildings such as housing and dining as well as its instructional buildings. There is also a renewed focus on fund raising and development.

The University continues to gain national stature for its academic and other programs. The University is moving in new directions to remain strong under the leadership of its new President, Dr. Keith T. Miller.

FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

As of June 30, 2011 with comparative financial information as of June 30, 2010

	2011		2010	
ASSETS	Virginia State University	Component Units	Virginia State University*	Component Units
Current assets:				
Cash and cash equivalents (Note 2)	$ 22,812,926	$ 4,887,332	$ 26,539,904	$ 5,079,355
Cash and cash equivalents - Securities Lending (Note 2)	266,944	-	4,787,428	-
Short-term investments (Note 2)	81,856	-	2,580,224	-
Accounts and loans receivable, net of allowance (Note 3)	3,479,087	899,954	4,384,381	667,672
Due from the Commonwealth (Note 3)	11,634,170	-	3,984,181	-
Due from affiliates	132,661	-	51,132	35,505
Prepaid expenses	3,996,077	-	3,086,441	50,213
Notes and mortgages receivable, net of allowance (Note 3)	32,560	-	30,215	-
Total current assets	42,436,281	5,787,286	45,443,906	5,832,745
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	(85,497)	1,485,012	13,973,453	1,523,274
Restricted investments (Note 2)	506,300	-	(530,534)	-
Endowment investments (Note 2)	20,226,520	7,782,972	17,484,843	4,383,009
State appropriation available	176,428	-	258,723	-
Notes and mortgages receivable, net of allowance (Note 3)	1,762,312	-	1,859,131	-
Other long-term investments (Note 2)	2,201,704	-	1,217,076	-
Unamortized issuance cost	137,565	107,975	143,512	113,503
Nondepreciable capital assets (Note 4)	31,050,717	542,828	41,938,796	542,828
Depreciable capital assets, net (Note 4)	144,095,480	10,525,789	102,367,586	11,170,334
Total noncurrent assets	200,071,529	20,444,576	178,712,586	17,732,948
Total assets	242,507,810	26,231,862	224,156,492	23,565,693
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	11,305,610	123,291	9,088,308	113,056
Due to Commonwealth - Treasury Loan (Note 6)	1,200,000	-	-	-
Due to affiliates	-	132,661	35,505	51,132
Deferred revenue	3,615,533	32,458	3,289,981	45,052
Retainage payable	647,233	-	1,496,645	-
Obligations under securities lending (Note 2)	348,800	-	7,367,652	-
Deposits held in custody for others	1,499,669	141,238	2,207,300	136,633
Long-term liabilities - current portion (Notes 7 and 8)	4,176,879	410,000	4,046,133	390,000
Other current liabilities	40,853	66,091	48,570	567,727
Total current liabilities	22,834,577	905,739	27,580,094	1,303,600
Noncurrent liabilities:				
Long-term liabilities - noncurrent (Notes 7 and 8)	59,837,189	22,709,450	62,665,689	22,489,614
Total liabilities	82,671,766	23,615,189	90,245,783	23,793,214
NET ASSETS				
Invested in capital assets (net of related debt)	114,362,825	(8,563,408)	89,119,169	(8,303,335)
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	3,716,042	7,778,943	3,473,449	6,559,257
Instruction	3,213,059	-	2,696,952	-
Other	355,212	-	202,000	-
Expendable:				
Scholarships and fellowships	13,457,366	2,330,928	11,462,970	1,481,135
Instruction	143,044	-	-	-
Loans	899,956	-	900,743	-
Capital projects	2,459,095	-	512,151	-
Other	1,770,232	-	1,589,683	-
Unrestricted	19,459,213	1,070,210	23,953,592	35,422
Total net assets	**$ 159,836,044**	**$ 2,616,673**	**$ 133,910,709**	**$ (227,521)**

*As restated

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

As of June 30, 2011 with comparative financial information as of June 30, 2010

	2011		2010	
	Virginia State University	Component Units	Virginia State University*	Component Units
Operating revenues:				
Student tuition and fees (net of scholarship allowance of $11,402,280)	$ 26,275,461	$ -	$ 23,521,687	$ -
Federal grants and contracts	15,005,759	-	17,868,929	-
State and local grants and contracts	464,931	-	185,343	-
Sales and services - educational departments	1,470	-	1,826	-
Auxiliary enterprises (net of scholarship allowance of $13,299,367)	24,456,246	-	22,459,802	-
Other operating revenues	485,234	3,154,837	786,604	1,571,494
Total operating revenues	66,689,101	3,154,837	64,824,191	1,571,494
Operating expenses: (Note 10)				
Education and general:				
Instruction	41,673,127	-	34,703,815	-
Research	4,338,349	-	4,302,792	-
Public service	6,845,224	-	7,658,294	-
Academic support	4,275,020	-	4,995,689	-
Student services	4,518,710	-	5,252,008	-
Institutional support	13,537,160	1,814,896	14,206,549	919,219
Operation and maintenance of plant	14,285,346	-	9,850,093	-
Scholarships and fellowships	3,201,814	194,240	2,026,857	233,676
Depreciation	9,563,661	650,073	9,313,984	322,658
Auxiliary enterprises	25,779,273	-	21,698,924	-
Other	157,394	-		
Total operating expenses	128,175,078	2,659,209	114,009,005	1,475,553
Operating income/(loss)	(61,485,977)	495,628	(49,184,814)	95,941
Nonoperating revenues/(expenses):				
State appropriations (Note 9)	38,378,276	-	37,977,396	-
Gifts	729,611	2,846,378	1,097,601	1,150,989
Investment income	3,540,584	727,922	1,392,529	989,769
Interest on indebtness	(2,739,926)	(1,029,794)	(2,191,041)	(493,927)
Loss on disposal of assets	(593,544)	-	(110,743)	-
Federal student financial aid	15,827,932	-	13,249,393	-
Federal Stabilization Funds (ARRA)	2,575,695	-	93,972	-
Other nonoperating revenues	648,100	8,271	473,843	9,959
Other nonoperating expenses	(126,131)	(204,211)	(3,146)	(282,198)
Net nonoperating revenue	58,240,597	2,348,566	51,979,804	1,374,592
Income/(Loss) before other revenues	(3,245,380)	2,844,194	2,794,990	1,470,533
Capital grants and gifts	1,018,308	-	631,745	-
Additions to permanent endowments	515,292	-	1,323,591	-
21st Century bonds reimbursement program	28,295,330	-	10,667,036	-
General obligation bonds reimbursement program	197,988	-	26,743	-
Other capital appropriation reduction	-	-	-	-
Extraordinary loss - disposal of student village	(856,203)	-	(5,927,662)	-
Total other revenues	29,170,715	-	6,721,453	-
Increase in net assets	25,925,335	2,844,194	9,516,443	1,470,533
Net assets, beginning of year, restated (Note 1.0)	133,910,709	(227,521)	124,394,266	(1,698,054)
Net assets, end of year	**$ 159,836,044**	**$ 2,616,673**	**$ 133,910,709**	**$ (227,521)**

*As restated

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

As of June 30, 2011 with comparative financial information as of June 30, 2010

	2011	2010*
Cash flows from operating activities:		
Tuition and fees	$ 26,205,534	$ 24,078,170
Grants and contracts	15,987,335	18,099,188
Auxiliary enterprises	24,541,226	22,350,067
Departmental sales and services, and other revenues	1,186,243	(8,478)
Payments to employees	(60,415,120)	(56,434,772)
Payments to suppliers	(44,849,775)	(36,173,125)
Payments for utilities	(7,174,924)	(7,339,245)
Payments for scholarships and fellowships	(6,185,498)	(4,921,165)
Loans issued to students	(29,163)	(327,633)
Collection of loans from students	123,638	430,265
Other payments	53,744	(116,881)
Net cash used by operating activities	(50,556,760)	(40,363,609)
Cash flows from noncapital financing activities:		
State appropriations	38,392,038	38,005,761
Gifts	1,244,903	2,421,192
Federal student financial aid	15,827,932	13,249,392
ARRA fiscal stabilization	2,575,695	93,972
Other nonoperating revenue	521,969	470,697
Funds held in custody for others - receipts	4,751,139	22,432,675
Funds held in custody for others - disbursements	(5,461,514)	(22,846,961)
Federal direct lending program receipts	(16,211)	24,210,277
Federal direct lending program disbursements	18,955	(24,213,299)
Net cash provided by noncapital financing activities	57,854,906	53,823,706
Cash flows from capital financing activities:		
Capital appropriations	68,533	307,904
Capital gifts and grants	1,233,673	1,267,385
21st Century bonds	20,358,968	8,903,665
General obligation bonds	187,075	38,409
Interest paid on capital debt, leases, and installments	(2,758,063)	(2,206,825)
Principal paid on capital debt, leases, and installments	(4,968,561)	(11,344,265)
Principal received on capital debt, leases, and installments	2,215,292	7,486,176
Purchase of capital assets	(40,198,435)	(35,249,336)
Net cash used by capital financing activities	(23,861,518)	(30,796,887)
Cash flows from investing activities:		
Investment income	3,540,584	1,392,529
Proceeds from sales and maturities of investments	(2,984,438)	(1,022,970)
Purchase of investments	(1,778,702)	(2,566,421)
Net cash used by investing activities	(1,222,556)	(2,196,862)
Net decrease in cash	(17,785,928)	(19,533,652)
Cash and cash equivalents - beginning of the year	40,513,357	60,047,009
Cash and cash equivalents - end of the year	**$ 22,727,429**	**$ 40,513,357**

STATEMENT OF CASH FLOWS (continued)

As of June 30, 2011 with comparative financial information as of June 30, 2010

	2011	2010*
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities		
Operating income (loss)	(61,485,977)	(49,184,818)
Adjustments to reconcile net cash used by operating activities:		
Depreciation expense	9,563,661	9,313,984
Changes in assets and liabilities:		
Receivables	905,687	(615,908)
Prepaid items	(909,636)	(697,691)
Other assets	5,946	13,124
Accounts payable	3,381,797	2,122,255
Less: Interest payable	18,137	15,784
Less: Payables for capital assets	(2,504,199)	(1,613,632)
Deferred revenue	325,552	310,664
Other liabilities	47,798	(130,005)
Net loans	94,474	102,634
Net cash used by operating activities	**$ (50,556,760)**	**$ (40,363,609)**

*As restated and reclassified.

The accompanying Notes to the Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The University is a component unit of the Commonwealth of Virginia and is included in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth. These basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) applicable to colleges and universities. They are prepared for and at the direction of the Commonwealth of Virginia for inclusion in the Commonwealth's CAFR, which includes all agencies, boards, commissions, and authorities associated with the Commonwealth and over which the Commonwealth exercises or has the ability to exercise oversight authority.

The Virginia State University Foundation (VSUF) is a legally separate component unit of the University and was organized as a tax-exempt charitable and educational organization in 1968. The purpose of this foundation is to accept contributions from individual donors and to safeguard, invest, and distribute the funds as designated by the donors or the Foundation's Board of Trustees for the benefit of the University, its students, alumni, and educational community in support of the University's mission.

The Virginia State University Real Estate Foundation (VSUREF) is a legally separate component unit of the University and was organized as a tax-exempt charitable and educational organization in 2002. Operations began in August 2003. The purpose of the Real Estate Foundation is to construct and manage the University Apartments at Ettrick (UAE), a 504-bedroom dormitory facility for the University, in support of the University's mission.

Effective with the calendar year that began on January 1, 2010, the VSUREF changed from a fiscal year end of June 30 to December 31.

Although the University does not control the timing or amount of receipts from either the VSUF or the VSUREF, the majority of the resources or income thereof that both foundations hold and invest is restricted to the activities of the University by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the University, the VSUF and the VSUREF are considered component units of the University and are discretely presented in the University's financial statements.

During the year ended June 30, 2011, the VSUF distributed $300,810 to the University for both restricted and unrestricted purposes. Separate financial statements for the VSUF can be obtained by writing Virginia State University Foundation c/o Vice President of Development, Storum Hall, P.O. box 9027, Petersburg, VA 23806. Separate financial statements for the VSUREF can be obtained by writing Virginia State University Real Estate Foundation c/o Vice President of Development, Storum Hall, P.O. Box 9027, Petersburg, VA 23806.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities.*

The VSUF and the VSUREF are private, nonprofit organizations that report under FASB standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the foundations' information in the University's financial reporting entity for these differences.

C. Basis of Accounting

The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability has been incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

D. Cash Equivalents

The University considers all highly liquid investments with an original maturity of ninety days or less to be cash equivalents. Funds invested through the State Non-Arbitrage Program (SNAP) and portions of the funds invested in the State Securities Lending Program are considered cash equivalents.

E. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are recorded at fair market value at June 30, 2011. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Prepaid Expenses

Prepaid expenses represent university library books, subscriptions, postage, system maintenance agreements and licenses, utilities, liability insurance and property insurance for FY2012, that were paid in advance as of June 30, 2011.

G. Capital Assets

Capital assets consisting of land, buildings, equipment, infrastructure assets, improvements other than buildings, inexhaustible works of art, intangible assets, and construction-in-progress are stated at appraised historical cost or actual cost, where determinable. Purchased or constructed capital assets are reported at actual cost or estimated historical cost. Donated capital assets are reported at fair value on the date of acquisition. Library materials are valued using purchase price for library acquisitions. Equipment is capitalized when the acquisition cost is $5,000 or greater and the estimated useful life is two years or more. Expenses for construction-in-progress are capitalized as they are incurred. Intangible assets are capitalized when the acquisition cost is $100,000 or greater. Interest expenses relating to construction are capitalized, net of interest income earned on resources set aside for this purpose. For the year ended June 30, 2011, interest expenses exceeded interest earned by $248,416 and was capitalized. Infrastructure assets are recorded at cost.

Depreciation is calculated using the straight-line method over the estimated useful life as follows:

Buildings	30-60 years
Infrastructure assets	15-20 years
Equipment	2-10 years
Intangible assets – computer software	5 years
Library books	5 years
Other improvements	20 years

H. Restricted and Unrestricted Net Assets

Resources restricted by outside sources are distinguished from unrestricted resources allocated for specific purposes by action of the Board of Visitors. Externally restricted resources may be utilized only in accordance with the purposes established by the source of such resources and are in contrast with unrestricted resources, of which the governing board retains full control to use in achieving the institutional purpose.

Restricted net assets can be expendable or nonexpendable. Nonexpendable restricted net assets are endowments and similar type funds where the donor(s) or some other outside source has stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. Expendable restricted net assets are resources which the University is legally or contractually obligated to spend in accordance with the restrictions imposed by external parties.

Unrestricted net assets are resources derived primarily from state appropriations, sales and services of educational departments, student tuition and fees, auxiliary enterprises fees and revenues, and gifts. Auxiliary enterprises are self-supporting activities that provide services for students, faculty, and staff. These unrestricted resources are used for transactions relating to the educational and general operations of the University and at the discretion of the governing board to meet current expenses.

When an expense has been incurred that can be paid using either restricted or unrestricted resources, the University's policy is first to apply the expense toward restricted resources and then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

I. Deferred Revenue

Deferred revenue represents revenues collected, but not earned as of June 30, 2011. This consists primarily of student tuition and fees received in advance of the academic term and advance payments from grant and contract sponsors.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by 12-month faculty and salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy as of June 30, 2011. The applicable share of employer-related taxes payable on eventual termination payments is also included.

K. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship allowance; (2) federal, state, and nongovernmental grants and contracts; and (3) sales and services of auxiliary enterprises, net of scholarship allowance.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as gifts and other revenue sources that are defined as nonoperating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis,* such as state appropriations and investment and interest income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and investment expenses. All other expenses are classified as operating expenses.

L. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Assets are reported net of related discount and premiums, which are expensed over the life of the bond. Bond issuance costs are also expensed over the life of the bonds.

M. Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. The scholarship allowance is reported using the alternative method as recommended by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a University-wide basis by allocating the amounts applied to student accounts and the cash payment to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

N. Title IV Federal Financial Assistance Programs

The University participates in the following federally funded programs: Federal Pell Grant (PELL), Federal Academic Competitiveness Grant (ACG); Federal Science and Mathematics Access to Retain Talent Grant (SMART); Federal TEACH Grants; Federal Supplemental Educational Opportunity Grant (SEOG); Federal Perkins Loan, Federal Direct Subsidized Loan; Federal Direct Unsubsidized Loan; Federal Parent Loan for Undergraduate and Graduate Students (PLUS), and Federal College Work Study (CWS). Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations, and the Compliance Supplement.*

O. Restatement of Beginning Net Assets

In FY2011, the University recorded a prior period adjustment to reflect an understatement of capitalized interest as of June 30, 2010 which was not reported in the FY2010 financial statements. The total amount of this understatement as of June 30, 2010 was $2,679,524 which was composed of $1,842,014 in construction in progress, $837,510 in buildings and an adjustment to increase accumulated depreciation in the amount of $23,433.

Net assets as reported at June 30, 2010	$ 131,254,618
Plus: Increase due to correction of capitalized interest	$ 2,656,091
Net assets at July 1, 2010, as restated	$ 133,910,709

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all State funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of State funds. Cash deposits held by the University are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 of the Code of Virginia. In accordance with the GASB Statement 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds,* definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less. At June 30, 2011, the carrying amount of cash and cash equivalents was $22,994,373.

B. Investments - Credit Risk, Custodial Credit Risk, and Interest Rate Risk

The University evaluates common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following disclosures are made in accordance with GASB Statement 40, *Deposit and Investment Risk Disclosures*. As an element of interest rate risk, this statement requires certain disclosures of investments with fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement must be disclosed. GASB Statement 40 also modifies disclosures required by GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

As of June 30, 2011, the University had the following investments:

Investments	
Spider Management Group	$ 22,934,524
Treasurer of Virginia	81,856
Total investments	$ 23,016,380

Investments held by the Treasurer of Virginia include the University's allocated share of securities totaling $81,856 received for securities lending transactions and held in the General Account of the Commonwealth. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's CAFR.

C. Interest Rate Risk

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2011. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The University's policy for investment of endowment fund assets requires that the investments be allocated as follows as of June 30, 2011:

This asset allocation helps limit the University's exposure to interest rate risk.

Asset Class	Desired Range	Allocation
Domestic Equity	5 - 25%	19.6%
International Equity	5 - 25%	14.9%
Global Equity	5 - 25%	11.6%
Opportunistic(P/E, Venture)	10 - 25%	15.5%
Multi Strategy	5 - 20%	12.6%
Credit	0 - 15%	8.5%
Real Estate	0 - 10%	4.2%
Real Assets	0 - 10%	6.1%
Cash	0 -10%	7.0%

D. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Statutes authorize the investment of local funds held by the University in obligations of the Commonwealth; federal government; other states or political subdivisions thereof; Virginia political subdivisions; the International Bank for Reconstruction and Development; the Asian Development Bank; and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated Prime 1 by Moody's Investment Service or A-1 by Standard and Poor's, Incorporated. The University may also invest in overnight term or open repurchase agreements and money market funds.

E. Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the endowment funds will not be able to recover the value of the investments that are in possession of an outside party. The University does not have a formal investment policy for custodial arrangements. At June 30, 2011, the University endowment funds were held at the custodial banks, the Spider Management Group and Wells Fargo.

F. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government or university in a single issuer. The University does not have a formal policy to reduce concentration of credit risk; however, all of the University's investments were held in various instruments and stocks and were not exposed to this risk.

G. VSUF – Cash and Investments

The investments of the VSUF consist primarily of equity securities and mutual funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. The amount of cash and investments held by the VSUF at June 30, 2011, was $10,349,708.

H. VSUREF - Cash and Investments

The investments of the VSUREF consist primarily of U.S. government money market funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. Cost is determined based on the initial purchase price of each individual investment. The amount of cash and investments held by the VSUREF at December 31, 2010 was $3,805,608.

3. ACCOUNTS RECEIVABLE AND NOTES

A. Accounts Receivable

Accounts receivable is shown net of allowance for doubtful accounts in the accompanying Statement of Net Assets.

At June 30, 2011, accounts receivable consisted of the following:

Student tuition and fees	$ 1,466,900
Federal, state and private grants and contracts	2,659,892
Auxiliary enterprises	4,400
Third party receivables - students	132,007
Other receivables	292,324
Total	$ 4,555,523
Less: allowance for doubtful accounts	(1,076,436)
Net accounts receivable	$ 3,479,087

B. Due from Affiliates

Due from VSUF	$ 132,661

C. Due from the Commonwealth

Receivables due from the Commonwealth represent reimbursements due for equipment purchases made by the University under the Equipment Trust Fund Program and Bond Reimbursement Programs. On a reimbursement basis, the Equipment Trust Fund program provides State-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment.

At June 30, 2011, Due from the Commonwealth consisted of the following:

General Obligation Bond Reimbursement - Construction Engineering Building	$	12,167
21st Century Bond Reimbursement - Handicap Access		3,539
21st Century Bond Reimbursement - Student Housing		167,779
21st Century Bond Reimbursement - Repair Storm/Sewer Line		23,407
21st Century Bond Reimbursement - New Academic Science Tech		322,244
21st Century Bond Reimbursement - Multipurpose Center Project		425,952
21st Century Bond Reimbursement – Maintenance Reserve		860,756
21st Century Bond Reimbursement – Heating Plant		5,378
21st Century Bond Reimbursement – Singleton Hall		1,128,408
21st Century Bond Reimbursement – Hunter McDaniel		8,516,310
21st Century Bond Reimbursement – Steam Tunnels		50,718
Interest Earned on Tuition and Fees and other E&G Revenues		117,512
Total Due from the Commonwealth	$	11,634,170

D. Notes Receivable

Notes receivable are shown net of an allowance for doubtful accounts in the accompanying Statement of Net Assets.

At June 30, 2011, notes receivable consisted of the following:

Current notes receivable:	
Federal student loans	$ 35,507
Less: Allowance for doubtful accounts	(2,947)
Net current notes receivable	32,560
Noncurrent notes receivables:	
Federal student loans	1,969,285
Less: Allowance for doubtful accounts	(206,973)
Net noncurrent notes receivables	1,762,312
Total notes receivable	$ 1,794,872

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2011, is presented as follows:

	Beginning Balance*	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Land	$ 4,634,292	$ 6,769,185	$ -	$ 11,403,477
Inexhaustible works of art and historical treasures	119,000	-	-	119,000
Construction in progress	37,185,504	32,926,906	(50,584,170)	19,528,240
Total nondepreciable capital assets	41,938,796	39,696,091	(50,584,170)	31,050,717
Depreciable capital assets:				
Buildings	177,611,047	48,901,291	(5,949,872)	220,562,466
Equipment	31,789,345	1,569,837	(420,627)	32,938,555
Intangible assets - computer software	3,347,006	-	-	3,347,006
Infrastructure(includes Improvements other than buildings)	14,406,918	1,466,233	-	15,873,151
Library books	22,461,555	808,550	(2,625,298)	20,644,807
Total depreciable capital assets	249,615,871	52,745,911	(8,995,797)	293,365,985
Less accumulated depreciation for:				
Buildings	92,131,219	5,539,151	(5,089,060)	92,581,310
Equipment	22,809,055	1,734,418	(386,974)	24,156,499
Intangible assets - computer software	2,611,018	669,401	-	3,280,419
Infrastructure(includes Improvements other than buildings)	9,934,351	669,441	-	10,603,792
Library books	19,762,642	951,250	(2,065,407)	18,648,485
Total accumulated depreciation	147,248,285	9,563,661	(7,541,441)	149,270,505
Net depreciable capital assets	102,367,586	43,182,250	(1,454,356)	144,095,480
Total	$ 144,306,382	$ 82,878,341	$ (52,038,526)	$ 175,146,197

* As restated

Net capital assets of the VSUREF consist of $542,828 for Land and $10,525,789 (net of accumulated depreciation of $4,835,785) for buildings, land improvements, and equipment as of December 31, 2010.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30, 2011:

Employee salaries, wages, and fringe benefits payable	$ 3,773,565
Matured interest payable	304,458
Vendor and supplier accounts payable	7,227,587
Total	$ 11,305,610

6. DUE TO COMMONWEALTH – TREASURY LOAN

In April 2011, the University requested and received authorization for a Treasury Loan in the amount of $11,790,000. This loan was issued to provide cash payments for contractual obligations related to the new construction of Gateway Residence Hall, Phase II project underway in the spring of FY2011, and in anticipation of the Department of the Treasury's Series 2011A general obligation bond sale in October 2011. At June 30, 2011 $1,200,000 was drawn down from this loan. Proceeds from the sale of general obligation bonds in October 2011 were subsequently used to repay the Treasury loan in full in November 2011.

7. LONG-TERM LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 8) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2011 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent
Long-term debt:						
General obligation bonds	$ 48,860,198	$ 330,095	$ (2,192,031)	$ 46,998,262	$ 2,301,887	$ 44,696,375
Notes payable	10,044,816	1,885,197	(2,521,578)	9,408,435	573,506	8,834,929
Installment purchases	2,716,031	-	(254,951)	2,461,080	263,131	2,197,949
Total long-term debt	61,621,045	2,215,292	(4,968,560)	58,867,777	3,138,524	55,729,253
Other noncurrent liabilities:						
Accrued compensated absences	3,609,690	2,024,466	(1,957,217)	3,676,939	1,038,355	2,638,584
Federal Perkins Loan contributions	1,481,087	11,515	(23,250)	1,469,352	-	1,469,352
Total long-term liabilities	$ 66,711,822	$ 4,251,273	$ (6,949,027)	$ 64,014,068	$ 4,176,879	$ 59,837,189

8. LONG-TERM INDEBTEDNESS

A. Bonds Payable

The University's bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. All of the bonds at the University are Section 9(c) bonds. These bonds are backed by the full faith, credit and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, will generate revenue to repay the debt.

A summary of future principal and interest requirement of bonds payable for fiscal year as of June 30, 2011, are as follows:

	Interest Rate	Maturity	Total
General obligation revenue bonds:			
Jones Dining Hall - 96 Refunded Portion	4% - 5%	2016	$ 900,092
Jones Dining Hall - 98 Refunded Portion	4% - 5%	2018	457,972
VSU Const Residence Hall 2006B Refunded Portion	5%	2022	4,965,000
VSU Construct Dining Hall Refunded Portion 2006B	5%	2022	1,280,000
Construct Residence Halls, Series 2006 B	4% - 5%	2026	9,435,000
Construct Dining Hall, Series 2006 B	4% - 5%	2026	2,435,000
Construct Residence Halls, Series 2007 A	4% - 5%	2027	1,750,000
Construct Two Residence Halls, Series 2007 B	4% - 5%	2027	24,210,000
Add unamortized premiums			1,565,198
Total bonds payable			$ 46,998,262

Aggregate annual maturities of bonds payable for fiscal years after 2011 are:

Maturity	Principal	Interest	Total
2012	$ 2,191,047	$ 2,108,634	$ 4,299,681
2013	2,296,281	1,999,082	4,295,363
2014	2,410,436	1,884,268	4,294,704
2015	2,530,554	1,763,747	4,294,301
2016	2,654,803	1,637,219	4,292,022
2017 - 2021	13,934,943	6,282,534	20,217,477
2022 - 2026	17,205,000	2,846,575	20,051,575
2027	2,210,000	100,200	2,310,200
Add unamortized premiums	1,565,198		1,565,198
Total	$ 46,998,262	$ 18,622,259	$ 65,620,521

B. Notes Payable

The University entered into a loan agreement with the Department of Housing and Urban Development (HUD) in 1989 and closed the agreement in 1992 to borrow funds to repair seven dormitories. The loan is to be repaid over 30 years at three percent interest and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. In prior years, the University participated in the Virginia College Building Authority (VCBA) Pooled Bond Program to fund the renovation of Rogers Stadium and the Student Village Housing Renovation Project. At June 30, 2011, the outstanding principal balances were $1,625,605 for the HUD loan and $7,782,830 for the VCBA notes payable.

A summary of future principal and interest requirements of the VCBA notes and HUD loan payable as of June 30, 2011, are as follows:

	Interest Rate	Maturity	Total
Virginia College Building Authority and HUD Notes Payable:			
VSU Pooled Bonds - 2002A Rogers Stadium Ref Portion, Series 2007 B	4%	2019	$ 2,175,000
VSU Pooled Bonds, Series 2002 A	5%	2022	545,000
VSU 2002A Rogers Stadium Ref Portion Total	5%	2023	1,610,000
VSU Pooled Bonds - Roger's Stadium, Series 2005 A	3%	2025	2,115,000
VSU Pooled Bonds - Student Village Housing, Series 2005 A	4% - 5%	2025	1,090,000
Department of Housing and Urban Development	3%	2022	1,625,605
Add unamortized premium			247,830
Total notes payable			$ 9,408,435

Aggregate annual maturities of notes payable for fiscal years after 2011 are:

Maturity	Principal	Interest	Total
2012	$ 554,066	$ 394,901	$ 948,967
2013	582,967	369,225	952,192
2014	606,986	342,331	949,317
2015	636,126	315,741	951,867
2016	660,392	289,081	949,473
2017 - 2021	3,745,593	995,617	4,741,210
2022 - 2026	2,374,475	212,620	2,587,095
Add unamortized premium:	247,830		247,830
Total	$ 9,408,435	$ 2,919,516	$ 12,327,951

Refunded Debt

In November 2010, the Commonwealth of Virginia issued $101,040,000 in Educational Facilities Revenue Refunding Bonds, Series 2010B. The sale of these bonds enabled the University to advance refund $1,625,000 of Series 2002A.

The net proceeds of $1,860,810 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable escrow account and will be used to pay interest, redemption premium and maturity value of the refunded bonds to their call date. This defeasance reduced total debt service payments over the next ten years by $77,618 resulting in an economic gain of $67,676 discounted at the rate of 3.017 percent.

C. Installment Purchases

Installment purchase obligations in FY2011 consisted of the Energy Performance Program Lease with $2,168,802 in principal remaining, and two buses through the Commonwealth's Master Equipment Leasing Program with $292,278 in principal remaining.

Principal and interest payment commitments as of June 30, 2011, are as follows:

	Interest Rate	Maturity	Total
Installment purchase obligation:			
Master Equipment Leasing Program - Motor Coach	2.4-3.0%	2014	$ 264,327
Master Equipment Leasing Program - Chevy GMT Van	2-2.6%	2013	27,951
Energy Leasing Program	4.32%	2022	2,168,802
Total Installment Purchase Obligations:			$ 2,461,080

The aggregate maturity of installment purchase obligations for fiscal years after 2011 is:

Maturity	Principal	Interest	Total
2012	$ 263,131	$ 101,945	$ 365,076
2013	261,408	91,904	353,312
2014	262,993	81,917	344,910
2015	179,555	72,326	251,881
2016	187,315	64,566	251,881
2017-2021	1,065,232	194,174	1,259,406
2022	241,446	10,435	251,881
Total	$ 2,461,080	$ 617,267	$ 3,078,347

D. Foundation Debt

The VSUREF refinanced and paid off the Series 2006 bonds and obtained $20,330,000 in Series 2008 bonds of which $19,740,000 in principal remains at December 31, 2010. The Series 2008 bonds are collateralized by the rental property and equipment. Also, the VSUREF is required to maintain a debt service reserve. The contractual interest rates are variable.

The Series 2008 bonds mature on July 1, 2031, and the VSUREF has agreed to prepayment terms of the principal to the Trustee with payments remaining due as follows:

Maturity	Principal
2011	$ 410,000
2012	490,000
2013	590,000
2014	700,000
2015	800,000
2016 and Thereafter	16,750,000
Total	$ 19,740,000

In conjunction with the refinancing of the bonds, loan costs of approximately $124,371 were incurred and are being amortized over the debt period. Amortization expense for the year ended December 31, 2010 and six months ended December 31, 2009 was $5,528 and $2,521, respectively.

The VSUREF had entered in to an interest rate swap agreement as part of the provisions of the Series 2006 bond agreement. When the VSUREF issued the 2008 Series bonds the original swap contract was satisfied and a new interest rate swap agreement was obtained. Per the terms of the 2008 swap agreement, the VSUREF pays a fixed rate of interest of 4.12%. The interest rate swap agreements qualify as derivative financial instruments and are used to mitigate the effect of interest rate fluctuations. The VSUREF accounts for the interest rate swaps as fair value hedges whereby other liabilities in the accompanying statements of financial position with the offsets recorded as expenses.

The fair value of these contracts was a negative $3,379,450 and $2,749,614 at December 31, 2010 and 2009, respectively. This is the amount the VSUREF would have to pay to settle the interest rate swaps as of these respective dates.

In conjunction with the bond issuance, the University signed a support agreement with the VSUREF stating that the Project will be an equal part of the Student Housing Program, provide preferential treatment to provide 95% occupancy if the debt service coverage ratio is less than 1.2 to 1, and limit additional housing projects.

9. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriations Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium.

The following is a summary of state appropriations received by the University for the year ended June 30, 2011:

Virginia State University:		
Original legislative appropriation:		
Education & general programs	$	30,129,353
Higher education student financial assistance		5,077,406
Supplemental adjustments:		
State grants and scholarships		192,377
VIVA Interlibrary loan		5,742
Mandatory reappropriation from FY2010		1,712,618
Appropriations decrease general fund		(187,689)
SPCC rebate		12,455
VCBA Debt service appropriations		(858,871)
Year end cash reversion		(3,056,370)
	$	33,027,021
Cooperative Extension and Agricultural Research Services:		
Original legislative appropriation:		
Education & general programs	$	5,104,160
Supplemental adjustments:		
Mandatory reappropriation from FY2010		195,849
Appropriations increase general fund		73,642
Year end cash reversion		(22,396)
	$	5,351,255
Total state appropriations	$	38,378,276

10. EXPENSES BY NATURAL CLASSIFICATION

The following table shows a classification of expenses both by function, as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 22,673,394	$ 6,305,172	$ 12,357,687	$ 158,513	$ 178,361	$ -	$ 41,673,127
Research	2,375,871	576,606	1,148,249	137,452	100,171	-	4,338,349
Public Service	3,113,335	787,675	2,833,576	36,159	74,479	-	6,845,224
Academic Support	2,833,407	776,997	502,465	118,484	43,667	-	4,275,020
Student Services	3,043,090	745,891	664,820	19,196	45,713	-	4,518,710
Institutional Support	7,614,290	2,990,154	2,526,456	63,577	342,683	-	13,537,160
Operation and Maintenance of Plant	716,099	346,330	9,745,649	-	3,477,268	-	14,285,346
Scholarships and Fellowships	-	-	9,489	3,192,325	-	-	3,201,814
Depreciation	-	-	-	-	-	9,563,661	9,563,661
Auxiliary Enterprises	4,413,158	1,364,148	14,629,593	2,459,791	2,912,583	-	25,779,273
Other	-	-	157,394	-	-	-	157,394
Total	$ 46,782,644	$ 13,892,973	$ 44,575,378	$ 6,185,497	$ 7,174,925	$ 9,563,661	$ 128,175,078

11. COMMITMENTS

As of June 30, 2011, the University was a party to construction contracts totaling $83,850,950 of which $13,716,713 was still outstanding, at June 30, 2011.

12. RETIREMENT PLANS

A. Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer Public Employee Retirement System (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Therefore, all information relating to this plan is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report. The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR discloses the unfunded pension benefit obligation at June 30, 2011, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's total VRS contributions were $3,483,046 for the year ended June 30, 2011, which included the five percent employee contribution assumed by the employer. These contributions represent 11.2 percent of covered payroll for the year. The University's payroll costs for employees covered by the VRS for the year ended June 30, 2011, were $31,165,616. The University's total payroll costs for the year ended was $46,782,644.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in one of two other retirement plans: 1) Fidelity Investments Institutional Services and 2) Teacher Insurance and Annuity Association/College Retirement Equity Fund. These are fixed-contribution programs where the retirement benefits received are based upon the employee contributions, plus interest and dividends. Individual contracts issued under these plans provide full and immediate vesting of both the University and the participants' contributions.

For employees who became members of the respective plans prior to July 1, 2010, there is an employer required contribution of 10.4 percent. Annual pension costs under these plans totaled $786,642 for the year ended June 30, 2011. Contributions to these retirement programs were calculated using the base salary amount of approximately $7,563,865.

For employees who became members of the respective plans on or after July 1, 2010, there is an employer required contribution of 8.5 percent and an employee required contribution of five percent. Annual pension costs under these plans totaled $84,932 for the year ended June 30, 2011. Contributions to these retirement programs were calculated using the base salary amount of approximately $1,207,364.

C. Deferred Compensation

University employees may also voluntarily participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The matched dollar amount can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was $159,664 for FY2011.

13. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance programs, which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums for its retirees who have at least 15 years of state service and participate in the State's health plan. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia's CAFR.

The University in compliance with GASB Statement No.47 – Accounting for Termination Benefits did not have any voluntary termination benefits and/or involuntary termination benefit liabilities outstanding as of June 30, 2011 that was recognized in accordance with this statement. The Virginia State University "Early Retirement Incentive Plan" (ERIP) is a volunteer early retirement plan for tenured teaching and research faculty which provides supplemental retirement benefits to faculty members. Eligible participant must be 1) Volunteer 2) 50 yrs of age 3) Tenured or contractual right to continued employment 4) Full-time employee.

14. CONTINGENCIES

The University has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with various regulations issued by the Office of Management and Budget. Failure to comply with these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2011, the University estimates that no material liabilities will result from such audits or questions.

The University has been a defendant in several legal actions. The final outcome cannot be determined at this time, but management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

15. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft, or damage to and destruction of assets; errors, and omissions; non-performance of duty, injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The State employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the CAFR.

16. EXTRAORDINARY ITEM

In FY2010, the University made repairs to the Student Village housing complex to extend its life for several years so that other housing projects could be completed, including Gateway I (Moore Hall) and Howard Quad I. At the end of FY 2011, the entire Student Village was razed to make way for the construction of Gateway II which is expected to come on line in the fall of 2012. This resulted in an extraordinary loss and a write down of the Student Village asset of $856,203. This write down is reflected in the accompanying financial statements.

17. SUBSEQUENT EVENTS

A major renovation was completed to Gandy Hall in 2008. Over the last 18 months prior to taking the Gandy basement offline, several mold remediation projects were initiated. In September 2011, the basement was closed for use. September 20, 2011 was the last day the basement was used. It was determined that a much larger project was needed to upgrade the HVAC systems in Gandy to correct the ongoing problems. Total gross square footage for Gandy is 32,414 of which the basement represents 8,207 of this total. The cost to correct this problem has not been determined and the funding for it has not been secured. Staff located in this space have been relocated elsewhere on campus. There is the probability that there will be a financial statement impact of this impairment which will have to be recorded in FY 2012.

The continued volatility of the financial markets has affected the University's investment portfolios. As of December 31, 2011, the value of the portfolio taken as a whole declined by $731 thousand or 3.2 percent. The University does not expect this decline to be permanent and indications are that the portfolio will improve by the end of the next quarter on March 31, 2012. As of March 13, 2012, the Dow Jones Industrial Average is up 7.9 %, the NASDAQ Composite Index is up 16.7%, and the S&P 500 Index is up 11.0%, since December 31, 2011.

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VIRGINIA STATE UNIVERSITY
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As of June 30, 2011

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Vice President for Administration and Finance

Dr. W. Weldon Hill
Provost and Vice President of Academic Affairs

Dr. Robert L. Turner, Jr.
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